

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6695

BILL NUMBER: HB 1384

NOTE PREPARED: Jan 13, 2008

BILL AMENDED:

SUBJECT: Various Economic Development Matters.

FIRST AUTHOR: Rep. Bosma

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State

Summary of Legislation: *Economic Development Incentives-* This bill requires the Indiana Economic Development Corporation (IEDC) to biennially review state and local economic development incentives to determine whether: (1) small businesses are eligible for the incentives; (2) small businesses can easily access and participate in the incentives; and (3) any incentives should be modified to make small businesses eligible for the incentives. It requires the IEDC to biennially submit a report to the Legislative Council. The bill also requires the IEDC to conduct at least one public hearing to receive comments from owners and employees of small businesses. It authorizes the IEDC to: (1) solicit information and comments from small business owners and other individuals and entities; and (2) pay travel expenses, per diem, and expert witness fees.

Unemployment Insurance for New Businesses- The bill reduces new employer contribution rates to the unemployment compensation system from 2.7% to 1% when the Unemployment Insurance Benefit Fund reaches a specified reserve amount.

Hoosier Business Investment Tax Credit- This bill repeals the December 31, 2011, expiration date for the Hoosier Business Investment Tax Credit.

Effective Date: Upon passage; July 1, 2008.

Explanation of State Expenditures: *Review of Economic Development Incentives-* The Indiana Economic Development Corporation could potentially incur additional administrative cost to implement these new research requirements. However, the precise fiscal impact of this provision is indeterminable.

The funds and resources that may be required for the IEDC to implement the new research requirements

could be supplied through a variety of sources, including the following: (1) existing staff and resources not currently being used to capacity; (2) existing staff and resources currently being used in another program; (3) authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) funds that, otherwise, would be reverted; or (5) new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions. The state vacant position report for December 31, 2007, indicates the IEDC had 10 vacant full-time positions.

Background- The bill requires the IEDC to conduct a biennial review of all state and local economic development incentives and determine the following:

- (1) Whether small businesses are eligible for the incentives.
- (2) Whether small businesses can easily access and participate in the incentives for which they are eligible.
- (3) Whether any incentives should be modified to make some or all small businesses eligible for the incentives.

The bill requires the IEDC to submit a report on the review of state and local economic development incentives to the Governor and the Legislative Council before November 1, 2008, and November 1st of every even-numbered year thereafter. Relative to the review requirement in (3) above, the bill requires that the IEDC state in the report the reasons why incentives should or should not be modified to make small businesses eligible for the incentives. The bill also requires the report to be submitted to the Legislative Council in an electronic format.

The bill requires the IEDC to conduct at least one public hearing to receive comments on the review from small business owners and employees. The bill permits the IEDC to solicit information and comments from small business owners and other private individuals and entities, tax policy experts, and other appropriate sources to carry out the review. It also authorizes the IEDC to pay any travel expenses, per diem, and expert witness fees for such individuals or entities.

Explanation of State Revenues: *Unemployment Insurance for New Businesses-* The bill would reduce revenue into the Unemployment Insurance Benefit Fund if the ratio of the fund's balance divided by the total previous year's payroll of employers is greater than 1%. Currently, the ratio is less than 1% and has been decreasing over the last five years. It is unknown when the ratio might exceed 1%. When the new employer rate is decreased from 2.7% to 1%, the reduction in fund revenue would be about \$16 M annually.

The fund balance on June 30, 2007, was about \$442.8 M. The balance would have to increase to about \$800 M before new employer contributions could be reduced from 2.7% to 1%.

Hoosier Business Investment Tax Credit- The bill eliminates the sunset date for the Hoosier Business Investment (HBI) Tax Credit. Under current statute, the HBI Tax Credit expires on December 31, 2011. This would allow the IEDC to award new tax credits for qualified investment occurring in 2012 and after. The potential amount of new credits that might be certified by the IEDC beginning in 2012 is indeterminable.

Background- Under current statute, the IEDC Board is authorized to award the nonrefundable HBI Tax Credit for expenditures on qualified investment determined to foster job creation and higher wages in Indiana. The maximum credit that the IEDC may award is 10% of the qualified investment. A taxpayer may

claim the credit against the Adjusted Gross Income (AGI) Tax, Insurance Premiums Tax, or Financial Institutions Tax liability. (Note: The maximum allowable credit was 30% of qualified investment if approved before May 15, 2005. However, these credits may be claimed only against the growth in the taxpayer's tax liability over a specified base year tax liability.) The IEDC is currently authorized to award the HBI Tax Credit for qualified investment made before January 1, 2012. (Note: The expiration date was extended from December 31, 2007, to December 31, 2011, under P. L. 137-2006.) The credit is nonrefundable and may not be carried back. Unused tax credits may be carried over for up to nine years after the year in which the investment is made, unless a shorter carryover period is stipulated by the IEDC Board. In 2006, approximately \$21.10 M in credits were accounted for under the 30% credit program, and approximately \$30.30 M in credits were awarded under the current 10% credit program. Most recently, in 2007, approximately \$5.70 M in credits were accounted for under the 30% credit program, and approximately \$28.30 M in credits were awarded under the current 10% credit program.

Revenue from the AGI Tax on corporations, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of Workforce Development; IEDC; Indiana Small Business Development Center.

Local Agencies Affected:

Information Sources: Garth Brazelton, IEDC, 317-234-4038.

Fiscal Analyst: Hannah Mongiat, 317-232-9867; Chuck Mayfield, 317-232-4825.